

TESTIMONY OF DAN NATION

**TO U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON RURAL DEVELOPMENT, ENTREPRENEURSHIP AND
TRADE
TEXTILES ENFORCEMENT AND SMALL BUSINESS**

**THURSDAY, JUNE 18, 2009 – 10:00 A.M.
ROOM 2360 RAYBURN HOUSE OFFICE BUILDING**

CHAIRMAN SHULER, RANKING MEMBER LUETKEMEYER AND MEMBERS OF THE SUBCOMMITTEE, MY NAME IS DAN NATION AND I AM DIVISION PRESIDENT WITH PARKDALE MILLS. I ALSO APPEAR BEFORE YOU TODAY ON BEHALF OF THE NATIONAL COUNCIL OF TEXTILE ORGANIZATIONS A TRADE ASSOCIATION REPRESENTING THE DOMESTIC TEXTILE INDUSTRY.

PARKDALE MILLS IS A PRIVATELY HELD YARN SPINNING COMPANY BASED OUT OF GASTONIA, NC. OUR COMPANY BEGAN OPERATIONS IN 1916. AT THE PEAK OF OUR GROWTH, PARKDALE OPERATED 38 FACILITIES IN FOUR STATES EMPLOYING OVER 4000 PEOPLE. IN THE LAST 12 YEARS, WE HAVE BEEN FORCED TO CLOSE 19 OF THESE FACILITIES; RESULTING IN OVER 2,200 JOBS LOST NOT INCLUDING ALL OF THE ADJACENT JOBS SUPPORTED BY THESE MANUFACTURING JOBS. ALL OF THESE FACILITIES WERE LOCATED

IN SMALL TOWNS THROUGHOUT THE SOUTHEASTERN U.S. THESE TOWNS HAVE LOST THE MAJORITY OF THEIR MANUFACTURING TAX BASE, CREATING FURTHER FINANCIAL STRESS.

CONSERVATIVELY, WE ESTIMATE THAT 1200 OF THE 2,200 PARKDALE HAD TO ELIMINATE COULD HAVE BEEN SAVED WITH 100% EFFECTIVE CUSTOMS ENFORCEMENT OVER THE LAST SIX YEARS. EVIDENCE OF CUSTOMS FRAUD IN YARN SHIPMENTS TO NAFTA AND CAFTA COUNTRIES HAS GROWN EXPONENTIALLY. AS SHIPMENTS TO CENTRAL AMERICA GREW AFTER CARIBBEAN BASIN INITIATIVE (CBI) AND CAFTA, DISTRIBUTORS AND CERTAIN CUSTOMERS WE WERE SELLING TO IN THE REGION BEGAN ASKING FOR MULTIPLE ORIGINAL AFFIDAVITS ON THE SAME SHIPMENT OF YARN. YARN SPINNERS ARE REQUIRED TO PROVIDE AN AFFIDAVIT CERTIFYING THAT THE YARN IS PRODUCED IN THE U.S., GIVING THE GARMENT IT IS MADE INTO DUTY-FREE ACCESS BACK TO THE U.S. ALSO, WE BEGAN TO SEE FORGED AFFIDAVITS FROM PARKDALE ORIGINALS AND FROM COMPANIES THAT WERE OUT OF BUSINESS OR THAT DO NOT EXIST. DUTY AVOIDANCE MAKES THESE COMPANIES MORE COMPETITIVE WITH PRICING, WHICH TAKES U.S. JOBS AWAY FROM VERY COMPETITIVE U.S. COMPANIES.

ONE OF THE MOST BLATANT CASES INVOLVES A SHELL COMPANY NAMED YARNS AMERICA ([HTTP://YARNSAMERICA.COM](http://YARNSAMERICA.COM)). ON THEIR WEBSITE (COPY ATTACHED), THEY CLAIM TO HAVE 526,400 SPINNING SPINDLES IN NC, SC, AND AL, PRODUCING 5,000,000 POUNDS PER WEEK OF YARN. SPINDLE IS THE INDUSTRY TERMINOLOGY USED TO QUANTIFY THE YARN PRODUCING CAPACITY OF A MACHINE, PLANT, OR COMPANY. IF THIS INFORMATION WERE ACCURATE, YARNS AMERICA WOULD PRODUCE TWICE AS MUCH RING SPUN PRODUCT AS

PARKDALE. WE KNOW DETAILS OF EVERY YARN SPINNING COMPANY OPERATING IN THIS HEMISPHERE. THIS COMPANY DOES NOT EXIST. OUR SALESMEN THAT COVER THE CAFTA MARKET CONTINUALLY SEE AFFIDAVITS FOR YARN FROM THIS COMPANY CERTIFYING U.S. ORIGIN. THEY HAVE ALSO SEEN YARN IN CUSTOMER FACILITIES LABELED "YARNS AMERICA" THAT WAS OBVIOUSLY FOREIGN-MADE DUE TO THE PACKAGING AND IN FOREIGN CONTAINERS THAT COULD NOT HAVE BEEN SHIPPED FROM THE U.S. WE NOTIFIED JANET LABUDA AT U.S. CUSTOMS TWO YEARS AGO OF THIS ISSUE. WE KNOW THAT SHE HAS DONE SOME INVESTIGATION, BUT, TO-DATE, THERE HAS BEEN NO RESOLUTION AND YARNS AMERICA CONTINUES ITS ILLEGAL OPERATIONS.

DATA PUBLISHED BY THE U.S. GOVERNMENT (ATTACHED) ALSO SUPPORTS THAT NON-QUALIFYING YARNS ARE ILLEGALLY SUBMITTED AS U.S.-PRODUCED PRODUCT. IN 2008, THE DIFFERENCE BETWEEN DOMESTIC EXPORTS AND U.S. PRODUCTION TOTALS 42,768,751 KILOGRAMS (OR 196,023 BALES OF COTTON). THE DEFICIT BETWEEN EXPORTS AND THE TOTAL OF PRODUCTION AND IMPORTS WRONGLY INDICATES THAT NO COMBED COTTON YARN IS CONSUMED DOMESTICALLY. THE DIFFERENCE IS EQUIVALENT TO THE PRODUCTION OF NINE AVERAGE-SIZED U.S. MILLS. NOT COINCIDENTALLY, AT LEAST SEVEN U.S. COMBED COTTON YARN MILLS HAVE CLOSED SINCE THE BEGINNING OF 2008. BARRING A CHANGE IN THIS SITUATION, MORE CLOSINGS ARE IMMINENT. THIS IS CERTAINLY PROOF POSITIVE THAT THE LEVEL OF FRAUD IS IMMENSE.

THERE ARE NUMEROUS SMALLER ASIAN-OWNED APPAREL COMPANIES IN THE CAFTA REGION THAT WILL PURCHASE MULTIPLE CONTAINERS OF ASIAN YARN TO EVERY SINGLE

CONTAINER OF U.S. YARN. UTILIZING THE AFFIDAVIT ON THE U.S. YARN, WITH NO CONTINUOUS SYSTEM OF CHECKS AND BALANCES FROM U.S. CUSTOMS, THEY CAN REPORT ALL OF THESE GARMENTS MANUFACTURED FROM U.S. YARN, WHEN THE ACTUAL U.S. YARN CONSUMED IS A FRACTION OF THE TOTAL. WE CAN VERIFY THAT 2.5 TO 3 MILLION POUNDS OF ASIAN YARN PER MONTH IS IMPORTED INTO CAFTA, WHICH DOES NOT VIOLATE ANY TRADE LAWS. HOWEVER, WE CANNOT VERIFY THAT DUTY IS PAID ON ALL OF THE GARMENTS PRODUCED FROM THIS YARN. WE CAN LOOK AT ONE PRODUCT IN PARTICULAR, 40/1 COMBED COTTON, AND SEE THAT MANY MORE POUNDS OF GARMENTS ENTER THE U.S. DUTY-FREE MADE FROM THAT PRODUCT THAN IS EXPORTED FROM THE U.S. AND PRODUCED IN THE CAFTA REGION.

THERE ARE A LARGE NUMBER OF CENTRAL AMERICAN AND MEXICAN COMPANIES THAT DO FOLLOW CAFTA AND NAFTA RULES OF ORIGIN. THESE COMPANIES AND PROFESSIONAL ORGANIZATIONS THAT REPRESENT THEM (SUCH AS VESTEX IN GUATEMALA) ARE A RESOURCE FOR U.S. CUSTOMS TO IDENTIFY VIOLATIONS OF THE FTA'S. WE WOULD LIKE TO SEE THE ASIAN YARN THAT IS IMPORTED INTO CAFTA TRACKED THROUGH THE SUPPLY CHAIN TO SEE IF DUTIES ARE IN FACT PAID ON THESE GARMENTS.

THE SOLUTION CAN ONLY BE BETTER ENFORCEMENT OF FTA RULES OF ORIGIN. TO ELIMINATE FRAUDULENT AFFIDAVITS OF ORIGIN, FORGERY, AND SHELL COMPANIES, WE MUST HAVE AN ELECTRONIC SYSTEM WITH THE ABILITY TO FOLLOW PRODUCT THROUGH THE ENTIRE SUPPLY CHAIN. EACH ELECTRONIC AFFIDAVIT NEEDS A UNIQUE NUMBER SO THAT IT CANNOT BE REUSED OR COPIED. ADDITIONALLY, THERE HAS TO BE A QUALIFYING

REGISTRY OF COMPANIES ELIGIBLE FOR DUTY-FREE BENEFITS ISSUED UNIQUE CODES TO
KEEP OUT SHELL COMPANIES SUCH AS YARNS AMERICA.

OTHER MEASURES THAT WILL HELP MAKE CUSTOMS ENFORCEMENT MORE EFFECTIVE
INCLUDE:

- ELIMINATE BLANKET AFFIDAVITS
- INCREASE THE NUMBER OF CUSTOMS AGENTS
- BAN VIOLATORS FROM THE PRIVILEGE OF IMPORTING INTO THE U.S. FOREVER
- SEVERE PENALTIES FOR FALSE INFORMATION IN A FTA CLAIM
- SEIZURE OF UNDERVALUED GOODS
- PERMANENT CUSTOMS STAFF IN THE CAFTA REGION

THIS ISSUE CONTINUES TO PUT THE U.S., CAFTA, AND NAFTA COMPANIES AND EMPLOYEES
IN PERIL. WE HAVE EXCELLENT LAWS AND REGULATIONS IN PLACE; HOWEVER,
INADEQUATE ENFORCEMENT ALLOWS FRAUD AND CORRUPTION. THE PURPOSE OF NAFTA
AND CAFTA IS TO CREATE AND SUSTAIN JOBS IN BOTH REGIONS. THE YARN-SPINNING
ASSETS IN THE U.S. ARE THE MOST COMPETITIVE AND MODERN IN THE WORLD, AND
REPRESENT HUGE INVESTMENTS. ILLEGAL ACTIVITIES, INCLUDING CHEATING AND FRAUD,
ARE PUTTING LEGITIMATE HARD-WORKING PEOPLE IN THE UNEMPLOYMENT LINE.

CHAIRMAN SHULER AND MEMBERS OF THE SUBCOMMITTEE, I THANK YOU FOR THE
OPPORTUNITY TO PRESENT TESTIMONY TO THIS COMMITTEE AND I WOULD BE PLEASED TO
ANSWER YOUR QUESTIONS.

THANK YOU,

DAN NATION

PRESIDENT

PARKDALE MILLS, INC.

Combed Cotton Yarn: Production + Imports – Exports = Transshipment?

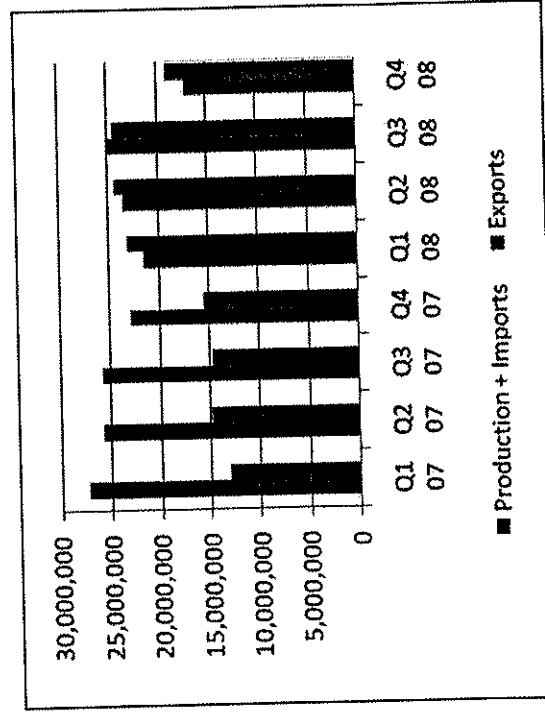
The Product: Combed Cotton Yarn, classified by the Office of Textiles and Apparel in Category 301

Definition of Combing: *A step that is subsequent to the carding process in both cotton and worsted spinning system yarn manufacture. In the cotton spinning system, card slivers are combined into a sliver lap before combing. The combing process separates the long, choice, desirable fibers from the neps and shorter stock (noil). The combing straightens and arranges them in parallel order in the form of combed sliver. Practically all remaining foreign matter is removed from the fiber sock. Only the best grades of cotton and wool may be combed. Combed yarns are finer, cleaner, more lustrous, and stronger than carded yarns. Combing is necessary for the production of fine yarns and also is applied to coarser yarns when high quality is desired.* Source: Short Staple Yarn Manufacturing, by McCreight, Feil, Booterbaugh, and Backe, Carolina Academic Press, 1997.

The Issue: Free trade and preference agreements have opened tremendous new opportunities for US yarn manufacturers exporting to markets in the Western Hemisphere. Duty-free benefits are granted to finished goods based on spinning the yarns with domestic fibers in a qualifying country. Unscrupulous entities have entered the market using Asian yarns by claiming falsely that the yarns were made in the US. **The scale of the problem led directly to at least nine plant closures so far in North Carolina, South Carolina, and Alabama over the last year. Two companies have been forced to close entirely in 2009 alone. More closures are imminent if the problem is not stopped immediately.** Trade cheats rob US and regional yarn producers of business and undermine the legitimacy of the agreements conferring special duty status. In 2008, the situation became impossible to ignore any longer when exports from the US exceeded the combined total of US production and imports. Trade data (see below) show this, but don't reflect the fact that at much of the domestically produced combed cotton yarn is never exported, but consumed in the US market.

Statistics (in kilograms):

	US Production	General Imports	Total Exports	Apparent Domestic Consumption
Q1 07	15,612,000	11,635,519	12,988,620	14,258,899
Q2 07	14,802,000	10,903,522	14,846,904	10,858,618
Q3 07	14,400,000	11,302,861	14,678,845	11,024,016
Q4 07	13,192,000	9,576,866	15,398,657	7,370,209
Q1 08	12,341,000	9,006,581	23,021,919	-1,674,338
Q2 08	12,816,000	10,636,129	24,349,166	-897,037
Q3 08	12,494,000	12,423,208	24,417,771	499,437
Q4 08	10,331,000	6,721,006	19,032,759	-1,980,753



Sources: US Production, US Census Bureau, Current Industrial Reports, "Textiles," Import/Export data, USITC Dataweb

Category 301 Combed Cotton Yarn

Data in Kilograms

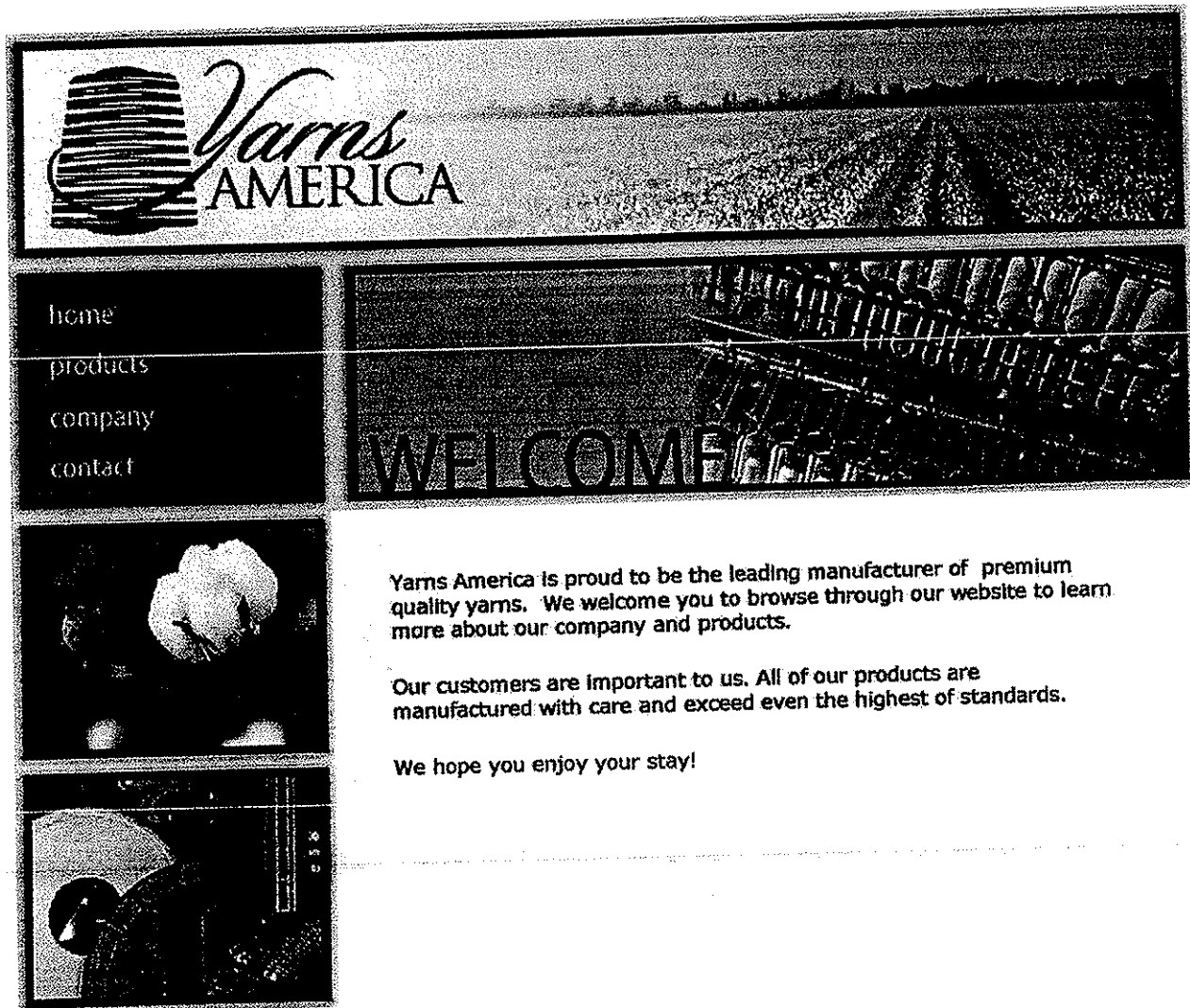
	US Production	Imports for Consumption	Domestic Exports	Apparent Domestic Consumption	Value of Imports	Value of Exports	Average Import Price (\$/KG)	Average Export Price (\$/KG)
Q1	15,612,000	11,635,519	12,975,643	14,271,876	\$35,961,458	\$39,395,924	3.091	3.036
Q2	14,802,000	10,906,697	14,803,760	10,904,937	\$33,459,909	\$41,797,200	3.068	2.823
Q3	14,400,000	11,302,861	14,644,554	11,058,307	\$35,071,417	\$41,343,911	3.103	2.823
Q4	13,192,000	9,576,866	15,393,699	7,375,167	\$30,741,430	\$44,631,295	3.210	2.899
2007	58,006,000	43,421,943	57,817,656	43,610,287	\$135,234,214	\$167,168,330	3.114	2.891
Q1	12,341,000	9,006,581	23,018,772	-1,671,191	\$29,057,421	\$72,665,938	3.226	3.157
Q2	12,816,000	10,636,129	24,342,244	-890,115	\$33,897,019	\$74,562,533	3.187	3.063
Q3	12,494,000	12,423,208	24,400,848	516,360	\$38,523,436	\$70,564,511	3.101	2.892
Q4	10,331,000	6,721,006	18,988,887	-1,936,881	\$20,817,314	\$54,597,186	3.097	2.875
2008	47,982,000	38,786,924	90,750,751	-3,981,827	\$122,295,190	\$272,390,168	3.153	3.002

Sources: Census, USITC

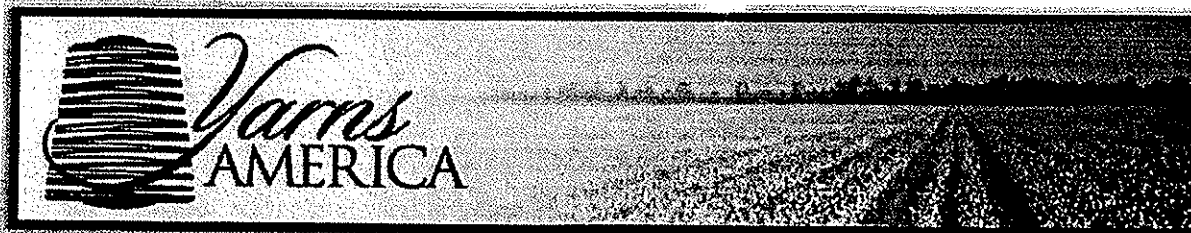
	100% cotton				50/50 poly/cotton			Total Average
	18/1	26/1	30/1	38/1	20/1	30/1	Avg	
Jan/Feb 07	\$3.48	\$3.81	\$3.92	\$4.93	\$4.05	\$4.33	\$4.19	\$4.08
Mar/Apr 07	\$3.48	\$3.81	\$3.92	\$4.93	\$4.05	\$4.33	\$4.19	\$4.08
May/June 07	\$3.48	\$3.78	\$3.89	\$4.93	\$4.05	\$4.31	\$4.18	\$4.07
Jul/Aug 07	\$3.48	\$3.54	\$3.63	\$4.36	\$3.94	\$4.16	\$4.05	\$3.85
Sep/Oct 07	\$3.45	\$3.56	\$3.63	\$4.36	\$3.96	\$4.20	\$4.08	\$3.86
Nov/Dec 07	\$3.23	\$3.34	\$3.39	\$4.16	\$3.94	\$4.16	\$4.05	\$3.70
Jan/Feb 08	\$3.34	\$3.48	\$3.54	\$4.27	\$3.94	\$4.16	\$4.05	\$3.79
Mar/Apr 08	\$3.34	\$3.41	\$3.45	\$4.22	\$4.00	\$4.25	\$4.13	\$3.78
May/June 08	\$3.56	\$3.83	\$4.00	\$4.66	\$4.38	\$4.64	\$4.51	\$4.18
Jul/Aug 08	\$3.70	\$3.96	\$4.16	\$4.82	\$4.49	\$4.77	\$4.63	\$4.32
Sep/Oct 08	\$3.74	\$4.03	\$4.18	\$4.88	\$4.58	\$4.86	\$4.72	\$4.38
Nov/Dec 08	\$3.45	\$3.81	\$3.94	\$4.62	\$4.51	\$4.77	\$4.64	\$4.18
Jan/Feb 09	\$3.41	\$3.74	\$3.92	\$4.60	\$4.58	\$4.84	\$4.71	\$4.18
Mar/Apr 09	\$3.34	\$3.67	\$3.85	\$4.51	\$4.51	\$4.75	\$4.63	\$4.11

The difference between domestic exports and US production totals 42,768,751 kilograms (or 196,023 bales). The deficit between exports and the total of production and imports wrongly indicates that no combed cotton yarn is consumed domestically. **The difference is equivalent to the production of nine average-sized US mills.** Not coincidentally, at least seven US combed cotton yarn mills have closed since the beginning of 2008. Barring a change in this situation, more closings are imminent.

US yarn prices are quoted bi-monthly in *Textile World*. The prices to the left have been converted to kilograms for comparison purposes. Note that the quoted US prices are significantly higher than US import and export prices. Increasing regional demand in early 2008 pushed prices up as production moved out of Asia. Prices began to tumble in the fourth quarter. However, the gaping difference between US prices and export prices remain.



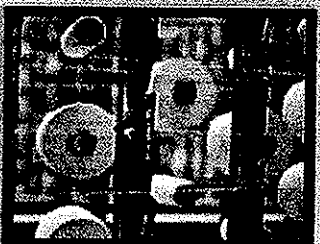
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PRODUCTS

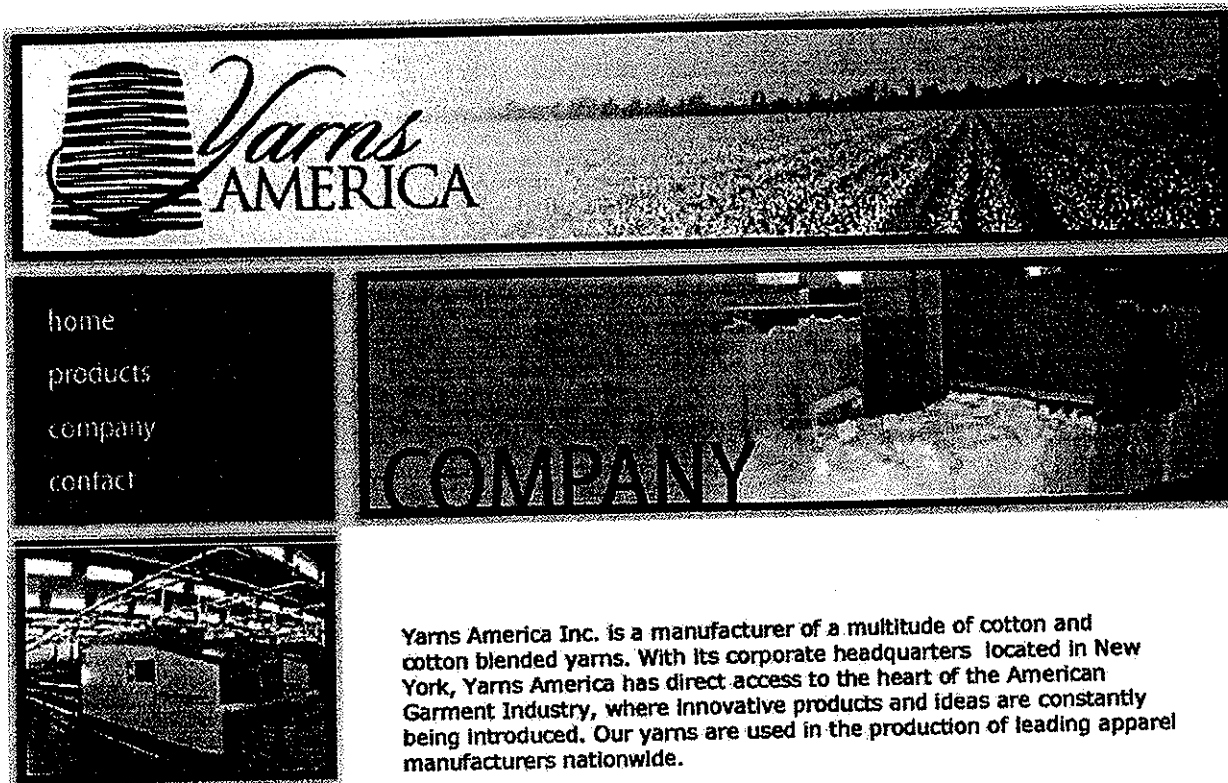


Yarns for Knitting

click here for
Yarns
for
Weaving

1. Ring spun Combed Yarns -
100% cotton and poly-cotton blends in counts 14/1-50/1
2. Ring spun carded yarns -
100% cotton and poly-cotton blends in counts:14/1-30/1
3. Open end carded yarns -
100% cotton in counts:14/1-26/1
4. Organic Cotton -
A natural product produced without using chemicals.
This yarn can be customized to your own specifications
in either open end or ring spun yarns.
5. Amsler Slub Yarns -
This Process creates a unique fabric that can be
used in many applications.
This can be customized to your own specifications in
either open end or ring spun yarns.
6. Pima Cotton -
100% Pima cotton in Open End and Ring Spun in various counts.
Also available in poly-cotton blends. This yarn can be made to
your own specifications.

At Yarns America, we are constantly developing new products. Should the product that you are interested in not be listed above, please inquire about availability.



Yarns America Inc. is a manufacturer of a multitude of cotton and cotton blended yarns. With its corporate headquarters located in New York, Yarns America has direct access to the heart of the American Garment Industry, where innovative products and ideas are constantly being introduced. Our yarns are used in the production of leading apparel manufacturers nationwide.

With plants strategically located in North Carolina, South Carolina, and Alabama, Yarns America offers direct shipping to Canada, Central America, the Carribean, and throughout the United States.

At Yarns America we employ the latest "state of the art" technology, combining our innovative equipment with a commitment to excellence. Our customers are ensured only the finest quality yarn. Thorough testing and constant monitoring guarantees that all of our products exceed even the highest standards.

All of us at Yarns America care deeply about the environment. That's why we use cutting edge equipment and methods, specially designed to minimize waste. We promote a cleaner, more environmentally conscious industry, setting an example for other companies.

CAPACITY

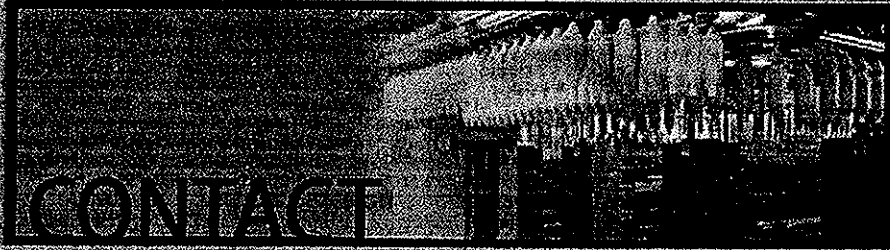
Yarns America has a spinning capacity of 526,400 spindles. Over 5 million lbs. of yarn are produced each week at our manufacturing facilities.

QUALITY GUARANTEE

We are committed to creating only the finest quality yarns. We are constantly testing and reevaluating our products to ensure that our yarns exceed all industry standards. We are always happy to provide samples to our customers for approval.



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For any further information or comments about our products, please contact one of our highly trained customer service representatives at:

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Fax: (718) 222-5576
info@yarnsamerica.com

At Yarns America, we are committed to creating only the finest quality yarns. We are constantly testing and reevaluating our products to ensure that our yarns exceed all industry standards. We guarantee that you will always be satisfied with our products. We are always happy to provide samples to our costumers for approval.

For inquiries about any specific products or to request a sample, please contact us directly.

To place an order please contact a highly trained sales representative at:
sales@yarnsamerica.com

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